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MAY 2007

MEETING THE CHALLENGE OF HEALTH FUNDING

Québec

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Meeting the Challenge of Health Funding

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INTRODUCTION

Québec boasts one of the most highly developed health care systems in the world—a major achievement. Quebecers are very attached to their system and want to preserve it, which is why the government has made health its number one priority.

❑ Health: Our number one priority

The importance given to health care by the government is reflected in the funding allocated to this sector. The budget of the ministère de la Santé et des Services sociaux has ballooned from $17.9 billion in 2002-2003 to $23.8 billion, a 33% increase in just five years. Spending on health has grown by $5.9 billion, accounting for 60% of the increase in total program spending.

This strong growth in public sector health expenditure has given rise to concrete improvement in health care services, including a reduction in the number of people waiting for elective surgery and radiation oncology care and services, a marked improvement in emergency room protocol (decrease in the average time waiting on stretchers), and an increase in the number of home care visits for the elderly, people with disabilities and their families.

In addition, the National Assembly passed Bill 33 in 2006 for the purposes of introducing a guaranteed access mechanism to further reduce wait times, especially for three kinds of elective surgery (cataracts, knee and hip).

❑ Health care funding: A major challenge

Ensuring the sustainability and continuous improvement of Québec's health care system nevertheless constitutes a major financial challenge. As in the rest of Canada and other industrialized nations, Québec's spending on health is exerting significant pressure on public finances and there is every indication that this pressure will increase in the coming years.

As shown by the task force on the sustainability of Québec's health and social services system (Ménard report) created in the wake of the *Forum des générations*, demographic change will strain Québec's future ability to spend on health. Other factors exerting upward pressure on public health expenditure include the sharp rise in technology and drug costs, compensation expenses and infrastructure needs.

❑ Meeting the challenge of health funding

The government intends to take action to ease this pressure. In the short term, it will rely on tight fiscal management and the measures implemented to make health care delivery more efficient. In the medium term, though, health funding will have to be improved to ensure access to quality health care.

Against that backdrop, this document:

— discusses health expenditure trends and the challenges the spending growth represents for public finance management;

— explains the mandate entrusted to an expert panel on health funding.

The panel, to be chaired by Claude Castonguay, will be submitting its report in the fall with a view to the release of an action plan on health funding.

1. HEALTH SPENDING IS STRAINING PUBLIC FINANCES

This section discusses the huge sums spent on health and the recent and forecast expenditure trends. It also explains the challenges that rising health costs represent for public finance management.

1.1 Health expenditure in Québec

Quebecers will spend more than $33 billion on health care in 2007-2008.[1] Over $9 billion of that amount will be private sector spending by households (out-of-pocket) and private health insurers.

Private expenditure includes dental care and eye care not covered by health insurance, drugs consumed outside health establishments, contributions by people in residential and extended care facilities, ambulance services and certain services offered by private clinics (e.g. cosmetic surgery, refractive laser treatment for myopia).

Public sector spending on health will reach $23.8 billion in 2007-2008. Public expenditure consists primarily of transfers to health establishments, payments for medical services, special program funding (ambulance services, blood products, etc.), and drug costs. However, it also includes spending on social programs, such as youth and adult psychosocial services, services provided to seniors losing their autonomy (extended care) and home support.

1 Forecast based on Canadian Institute for Health Information data, for private sector spending, and the 2007-2008 expenditure envelope of the ministère de la Santé et des Services sociaux, for public sector spending.

TABLE 1

Total health expenditure in Québec, 2007-2008

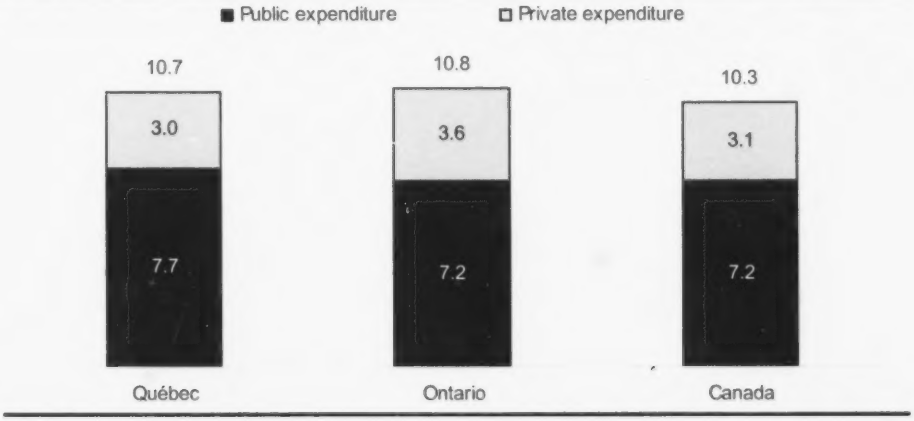
	$' 000,000	%
Private sector expenditure[1]	**9 228**	**28**
Public sector expenditure[2]		
- Establishments	14 070	43
- Medical services	3 670	11
- Special programs (community organizations, blood products, ambulance services, etc.)	2 896	9
- Drugs	2 102	6
- Subsidized debt	765	2
- Other	340	1
Subtotal	**23 843**	**72**
TOTAL	**33 071**	**100**

1 Forecast expenditure for 2007-2008 based on the average annual rate of growth in private sector health spending between 2001 and 2006 (5.6%), calculated using Canadian Institute for Health Information data.
2 Expenditure envelope of the ministère de la Santé et des Services sociaux for 2007-2008.
Sources: Canadian Institute for Health Information and *2007-2008 Expenditure Budget*.

Québec's total health care spending (public and private) as a percentage of GDP was 10.7% in 2006. By comparison, the share of GDP spent on health in Ontario and Canada as a whole in 2006 was 10.8% and 10.3%, respectively.

CHART 1

Total health care spending as a percentage of GDP – 2006[F]



F: Forecast.
Source: Canadian Institute for Health Information.

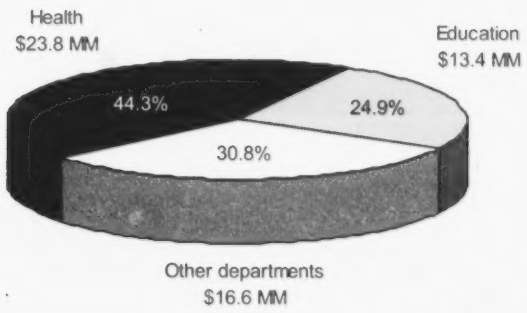
❑ Health is the largest single expenditure item for the Québec government

Health care spending will reach $23.8 billion in 2007-2008, or 44.3% of total program spending. This is the largest single expenditure item for the Québec government.

By comparison, spending on education, the second largest expenditure item, will be $13.4 billion in 2007-2008, or 24.9% of total program spending. Total expenditure for all other missions of the government will be $16.6 billion, or 30.8% of program spending.

CHART 2

Program spending, 2007-2008: $53.8 billion
(percentage breakdown)



Source: *2007-2008 Expenditure Budget*, Secrétariat du Conseil du trésor.

❑ Strong growth in health expenditure

For years now, spending on health care has been rising faster than the government's other expenditure items. Between 1980-1981 and 2007-2008, health spending grew at an annual rate of 5.9%, compared with a rate of 3.6% per year for all other government program spending.

TABLE 2

Average annual rate of growth in program spending
(percent)

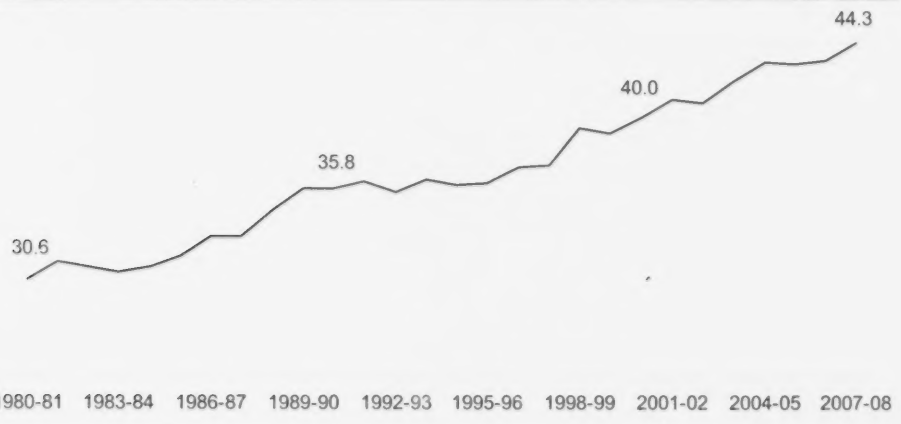
	1980-81 to 1990-91	1990-91 to 2000-01	2000-01 to 2007-08	1980-81 to 2007-08
Health and social services	8.4	3.6	5.8	**5.9**
Other	5.8	1.8	3.1	**3.6**
PROGRAM SPENDING	**6.7**	**2.4**	**4.2**	**4.4**

Sources: Québec government's *2007-2008 Budget Plan* and expenditure budgets.

The situation is such that health's share of total program spending is constantly growing, rising from 30.6% in the early 1980s to the current 44.3%, an increase of nearly 5 percentage points per decade. At this rate, health expenditure could account for 50% of program spending within the next decade.

CHART 3

Health expenditure's share of total program spending – 1980-1981 to 2007-2008
(percent)



Source: Expenditure budgets, Secrétariat du Conseil du trésor.

❑ Health accounts for 60% of program spending growth since 2003-2004

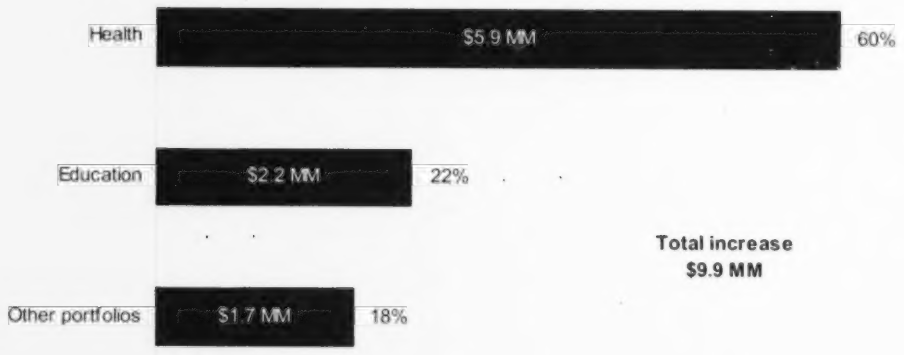
Health care is the government's number one priority. In fact, the importance given to this sector is reflected in its share of program spending growth. Health expenditure accounted for 60% of the total increase in program spending between 2003-2004 and 2007-2008, or $5.9 billion out of a total $9.9 billion.

— By comparison, health's share of program spending growth in Ontario and the rest of Canada was 51% and 47%, respectively.[2]

Substantial investments in health care have required very tight control of spending growth in other government departments. Whereas expenditures for sectors other than health and education accounts for 30.8% of program spending, they represent only 18% in program spending growth since 2003-2004.

CHART 4

Growth in program spending, 2003-2004 to 2007-2008



Source: Secrétariat du Conseil du trésor.

2 Data taken from the provinces' 2007-2008 budgets.

1.2 Continued pressure on health care spending

A number of studies have examined the forecast growth in health spending in the coming years. For example, the report of the task force on the sustainability of Québec's health and social services system, released in July 2005, forecast an annual rate of growth in expenditure of 5.1% by 2020 due to, among other things, demographic change and the rising cost of technologies and drugs.

TABLE 3

Contributing factors to growth in health expenditure, Québec 2005-2020
(average annual growth rate, in percent)

Demographic change		1.5
- Growth	0.4	
- Population aging	1.1	
Development of technologies and drugs		1.6
Change in cost (inflation)		2.0
OVERALL INCREASE		**5.1[1]**

1 Takes into account the longer health-adjusted life expectancy of Quebecers.
Source: *Comité de travail sur la pérennité du système de santé et de services sociaux du Québec, Pour sortir de l'impasse : la solidarité entre nos générations*, July 2005.

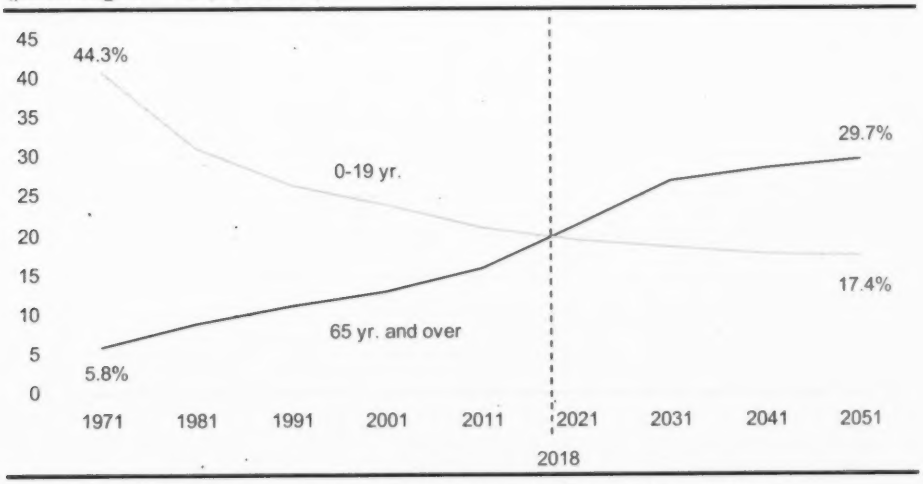
❑ Demographics to exert tremendous upward pressure on health expenditure

Québec is currently experiencing an unprecedented demographic shock. Its population will age more rapidly than that of other countries.

The Institut de la statistique du Québec (ISQ) expects the 65 and over age group to more than double from the current 14% to nearly 30% in 2051.

CHART 5

Change in the 0-19 and 65 and over age groups
(percentage of total population)



Source: Institut de la statistique du Québec, reference population scenario, February 2004.

Spending on health care for people aged 65 and over is considerably higher than for the rest of the population, mainly due to the following factors:

— the higher number of medical procedures on the elderly;

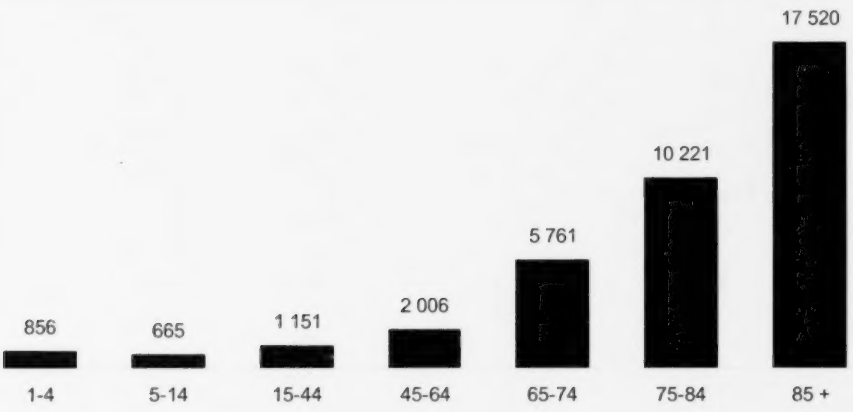
— greater consumption of drugs by the elderly;

— increased demand for home and extended care services for people losing their autonomy.

According to recent Canadian Institute for Health Information data, seniors consumed 49% of Québec health spending, while comprising approximately 14% of the population.

CHART 6

Québec government health expenditure by age – 2004
(dollars per capita)



Source: Canadian Institute for Health Information.

❑ Health spending will also come under pressure from technology and drugs costs

Another major factor contributing to the forecast growth in health expenditure is the pressure from the cost of new technologies and drugs.

Technological advances and new drugs help improve patient heath. However, they also cause health spending to rise more quickly. New technologies make it possible to treat more patients and offer treatments previously not available.

Access to new, more expensive drugs, coupled with the sharp increase in their consumption, is driving the strong growth in spending on drugs.

— For example, public health spending in Québec grew at an average annual rate of 7% between 1975 and 2006, while annual growth in spending on drugs was double that rate, or 14%.

TABLE 4

Public sector health expenditure by use of funds

	1975	2006[F]	Average annual growth
	($' 000,000)	($' 000,000)	(%)
Hospitals	1 509	9 849	6.2
Physicians	486	3 299	6.4
Drugs	45	2 658	14.0
Other	623	5 860	7.6
TOTAL	**2 663**	**21 766**	**7.0**

F: Forecast.
Source: Canadian Institute for Health Information.

❑ Conservative forecasts

The 5.1% annual growth in health expenditure forecast by the Ménard report is a conservative estimate. It does not take into account the required investments to improve services and maintain infrastructure quality, or increases in the remuneration of physicians and health personnel.

It should be remembered that between 2003-2004 and 2006-2007, Québec health expenditure grew at an average rate of 5.7% per year. By comparison:

— Ontario's Ministry of Finance forecasts average annual growth of 6% in its health spending between 2009-2010 and 2024-2025.[3]

— British Columbia's Ministry of Finance, in its economic and fiscal update for the first quarter of 2006, estimated its annual growth in health expenditure at 8% between 2005-2006 and 2017-2018.[4]

3 *Horizon 2025*, Ontario Ministry of Finance, 2005.

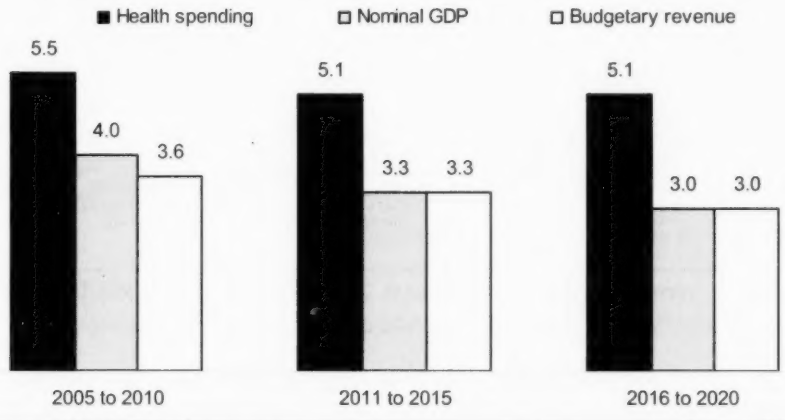
4 *Economic and Fiscal Update, First Quarterly Report*, B.C. Ministry of Finance, September 2006.

1.3 Health spending: An unsustainable strain over the long term

The strong growth in health spending represents a major challenge for public finance management. Indeed, the increase in such expenditure far exceeds the growth in government revenue. This situation cannot continue without jeopardizing the achievement of a balanced budget and the financing of the government's other missions.

CHART 7

Growth of health spending, the economy and government revenue
(percent)



Source: Ministère des Finances du Québec.

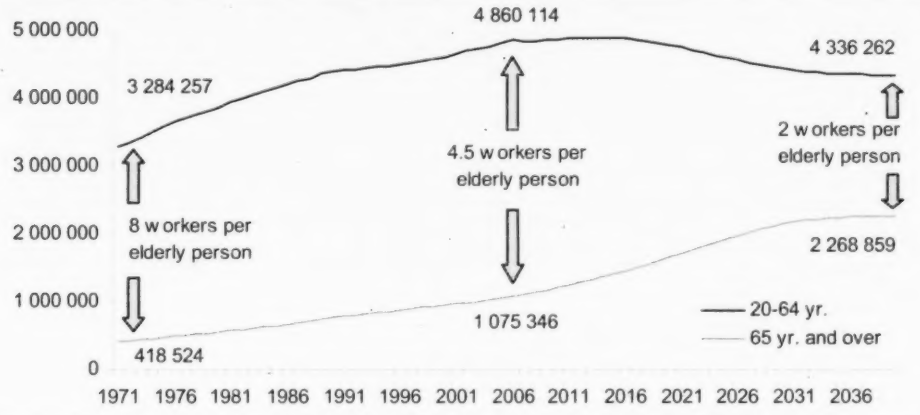
While, according to conservative estimates, there should be an increase of 5.1% per year, on average, in health expenditure over the next few years, growth in government revenue will slow gradually to 3% annually between 2016 and 2020.

The anticipated downturn in the growth of economic activity and government revenue can be attributed to the fact that Québec's economy will have to cope with a substantial decrease in the working-age population as of 2012.

The ISQ forecasts that the number of people aged 20 to 64 will fall by 730 000 between 2012 and 2051. Consequently, the number of workers per elderly person will decrease from the current 4.5 to a mere 2 within barely 20 years. The smaller pool of available workers will limit economic growth and government revenue.

CHART 8

Number of workers per elderly person



Source: Institut de la statistique du Québec, base population scenario and Québec population as at July 1, 2006.

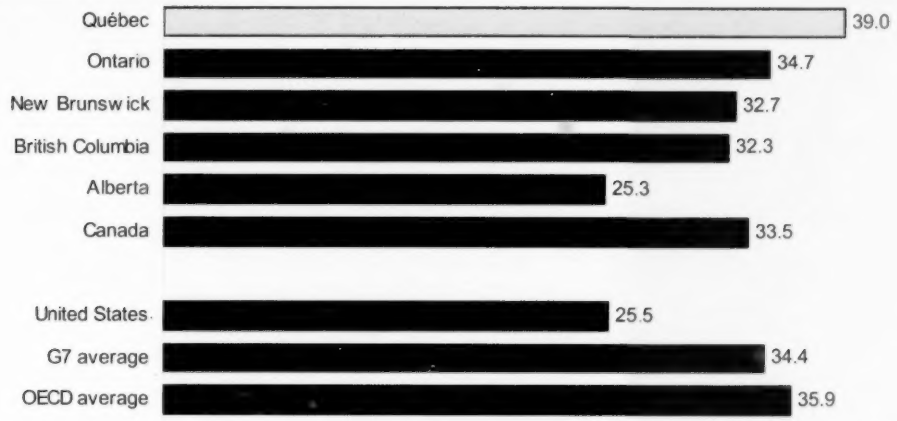
❑ Québec already has major challenges to meet in public finances

Health spending pressure is growing at a time when Québec is meeting major structural challenges in public finances, notably the need to improve its fiscal competitiveness and reduce its debt.

The tax burden of Québecers is high. The Québec government has started to reduce it for both individuals and businesses, a step that is necessary to stimulate investment, boost productivity and foster job creation. However, the sharp rise in health expenditure makes it more difficult to achieve the sustainable leeway needed to lower the tax burden.

CHART 9

Tax receipts of all public administrations – 2004
(as a percentage of GDP)

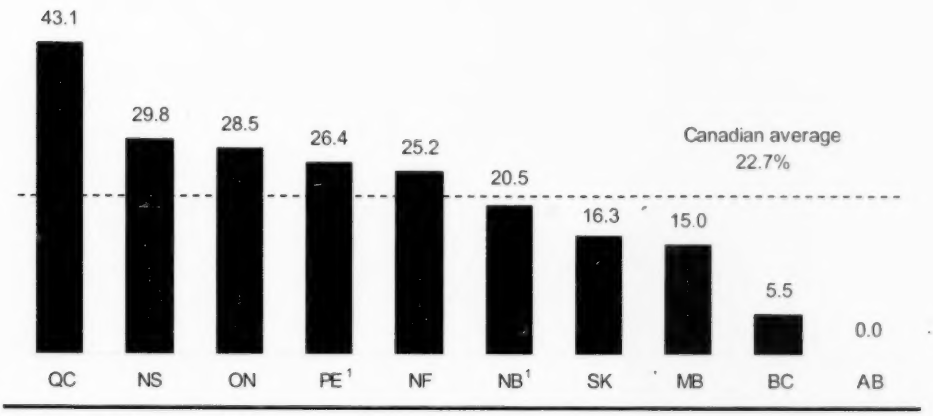


Sources: OECD and ministère des Finances du Québec..

Québec's debt level is the highest of all Canadian provinces. As with the tax burden, it is imperative to reduce the debt not only to ensure greater fairness for future generations and be better prepared to cope with the demographic shock, but also to restore the government's financial flexibility. Therefore, the government has created the Generations Fund and set objectives for reducing the debt load in the economy.

CHART 10

Total debt in 2006-2007
(as a percentage of GDP)



1 Data as at March 31, 2006.
Sources: Provincial budgets – 2006-2007.

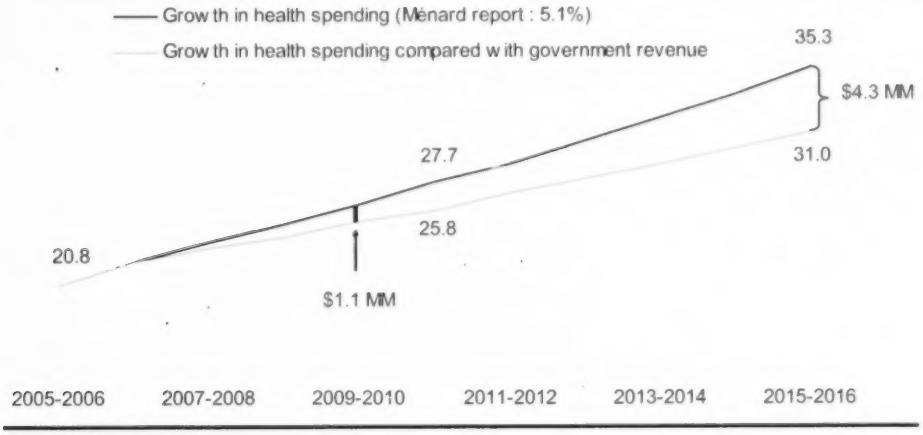
❑ Growth in health spending is placing considerable strain on the financing of the government's other missions

In a context where the government wants to reduce the tax burden and the debt load, the steep rise in spending on health care limits the financial resources available for the government's other missions.

The strain is considerable. In fact, owing to the shortfall caused by the excess of health spending growth over the increase in revenue, $1.1 billion will have to be drawn from the envelopes of the other departments in 2009-2010. An estimated $4.3 billion will have to be taken from these envelopes in 2015-2016.

CHART 11

Projected health and social services spending from 2005-2006 to 2015-2016
(billions of dollars)



Source : Ministère des Finances du Québec.

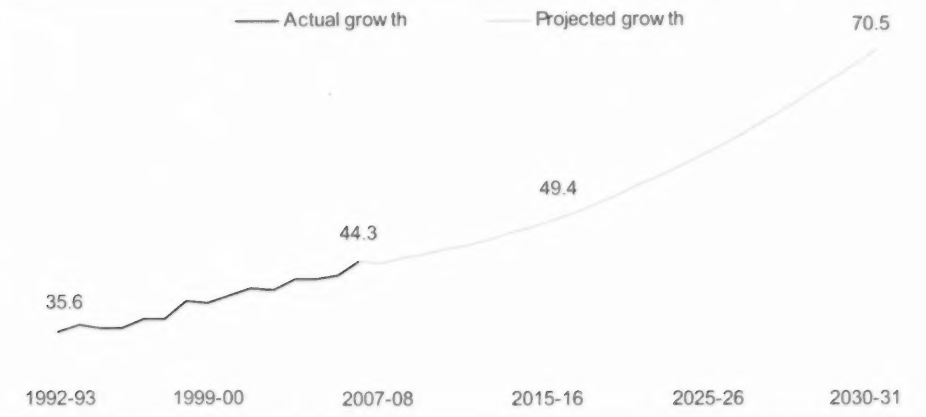
The pressure exerted by the strong growth in health care spending on the financing of the government's other missions can also be illustrated by examining the share of health in program spending. Based on the afore-mentioned estimate that health expenditure will grow by 5.1% and the assumption that program spending will grow by 4%, this share would reach:

— nearly 50% in 2015-2016;

— 70% in 2030-2031.

CHART 12

Health expenditure's share of total program spending from 1992-1993 to 2030-2031
(percent)



Source: Ministère des Finances du Québec.

Should the share of health in total program spending actually reach such high levels, the government's ability to finance its other missions would probably be called into question. Therefore, health funding must be reviewed in the near future.

2. REVIEW OF HEALTH FUNDING

Given the growing pressure from health costs, the first responsibility of the government is to make the delivery of care more efficient. Since spring 2003, it has taken action on several fronts to enhance the efficiency of the health care system, notably in prevention, the organization of service delivery methods and ensuring better access to medical and hospital services in order to reduce wait times. However, due to the scope of the challenge, these measures are insufficient.

In the short term, disciplined management of public finances has made it possible to fund the substantial rise in health spending. However, as indicated above, the growing gap between the increase in such expenditure and the growth of government revenue will be unsustainable over the longer term.

The health funding framework has to be reviewed. The responsible approach is to identify, in the near future, what action must be taken to maintain our ability to act.

❑ Taking action to ensure funding of the health care system: creation of a task force

In the 2007-2008 Budget, the government is announcing the creation of a task force that will make recommendations on how best to ensure adequate funding for the health care system. Based on the recommendations the task force presents in its report, the government will then announce an action plan to ensure sustainable health funding.

One of the avenues the government intends to explore in light of the creation of the first affiliated clinics stemming from the Chaoulli decision is the role the private sector could play in improving access to health care and reducing wait times. Faced with the ever-growing presence of the private sector, the government, while reiterating its commitment to maintain a strong public health care system, believes that it must examine how this increasing presence can be targeted and coordinated so that it contributes more effectively to improving health care delivery.

❑ Composition and mandate of the task force

This task force will be chaired by Claude Castonguay, whose expertise in health funding is recognized by all:

Entrusted with a mandate comprising six main focuses, the task force will:

— propose a structure for the new "health account" in order to make health funding more transparent and thus better inform the general public;

— propose additional sources of health care funding to the government;

— define the role the private sector can play to improve access to care and reduce wait times, while ensuring that a strong public system and its characteristic values are maintained;

— propose ways to accelerate debt repayment and thereby facilitate health funding over the long term;

— determine whether federal health funding will be adequate as of 2014, when the Health Accord concluded in 2004 by the federal and provincial first ministers expires;

— study changes that might have to be made to the *Canada Health Act*.

❑ Compliance with clear principles

During its work, the task force will ensure that its recommendations are compatible with the principles that have characterized Québec's health care system since its inception:

— maintaining a strong public health care system;

— protecting the most disadvantaged regardless of their social status and income level, notably with respect to access to care;

— maintaining high-quality criteria for both the private sector and private delivery of care.

❑ Time frame

The task force will submit its recommendations to the government next fall so that a health funding action plan can be announced thereafter.

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